

ROWAN COMPANIES PLC
Form 10-Q
November 08, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

R QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

OR

E TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____

1-5491
Commission File Number

Rowan Companies plc
(Exact name of registrant as specified in its charter)

England and Wales
(State or other jurisdiction of
incorporation or organization)

98-1023315
(I.R.S. Employer
Identification No.)

2800 Post Oak Boulevard, Suite 5450,
Houston, Texas
(Address of principal executive offices)

77056-6189
(Zip Code)

(713) 621-7800
(Registrant's telephone number, including area code)

Rowan Companies, Inc.
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes R No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such

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files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of Class A ordinary shares, \$0.125 par value, outstanding at October 31, 2012, was 124,194,069.

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ROWAN COMPANIES PLC

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ROWAN COMPANIES PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except shares)
(Unaudited)

| | September 30, 2012 | December 31, 2011 |
|---|--------------------------|-------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$328,290 | \$438,853 |
| Receivables - trade and other | 403,465 | 283,592 |
| Prepaid expenses and other current assets | 64,895 | 44,586 |
| Deferred tax assets - net | 42,899 | 27,023 |
| Assets of discontinued operations | 26,948 | 27,661 |
| Total current assets | 866,497 | 821,715 |
| PROPERTY, PLANT AND EQUIPMENT - at cost: | | |
| Drilling equipment | 6,671,638 | 6,179,587 |
| Construction in progress | 738,439 | 711,558 |
| Other property and equipment | 136,955 | 138,177 |
| Property, plant and equipment - gross | 7,547,032 | 7,029,322 |
| Less accumulated depreciation and amortization | 1,525,083 | 1,350,609 |
| Property, plant and equipment - net | 6,021,949 | 5,678,713 |
| Other assets | 100,400 | 97,417 |
| TOTAL ASSETS | \$6,988,846 | \$6,597,845 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ROWAN COMPANIES PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (continued)
(In thousands, except shares)
(Unaudited)

| | September 30, 2012 | December 31, 2011 |
|---|--------------------------|-------------------------|
| LIABILITIES AND EQUITY | | |
| CURRENT LIABILITIES: | | |
| Current maturities of long-term debt | \$- | \$45,023 |
| Accounts payable - trade | 90,101 | 111,082 |
| Deferred revenues | 35,975 | 36,220 |
| Accrued pension and other postretirement benefits | 14,515 | 55,244 |
| Accrued compensation and related employee costs | 41,520 | 31,205 |
| Accrued income taxes | 7,619 | 9,878 |
| Accrued interest | 17,682 | 25,477 |
| Other current liabilities | 21,036 | 9,237 |
| Liabilities of discontinued operations | 21,255 | 25,005 |
| Total current liabilities | 249,703 | 348,371 |
| Long-term debt - less current maturities | 1,393,151 | 1,089,335 |
| Other liabilities | 380,430 | 357,709 |
| Deferred income taxes - net | 487,251 | 476,443 |
| Commitments and contingent liabilities (Note 6) | - | - |
| SHAREHOLDERS' EQUITY: | | |
| Class A Ordinary Shares, \$0.125 par value, 124,734,407 shares issued at September 30, 2012 | 15,592 | - |
| Common stock, \$0.125 par value, 150,000,000 shares authorized and 127,577,530 shares issued at December 31, 2011 | - | 15,947 |
| Additional paid-in capital | 1,367,208 | 1,478,233 |
| Retained earnings | 3,312,893 | 3,186,362 |
| Cost of 548,264 and 3,996,465 treasury shares, respectively | (1,914) | (128,884) |
| Accumulated other comprehensive loss | (215,468) | (225,671) |
| Total shareholders' equity | 4,478,311 | 4,325,987 |
| TOTAL LIABILITIES AND EQUITY | \$6,988,846 | \$6,597,845 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ROWAN COMPANIES PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)
(Unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|------------------|------------------------------------|------------------|
| | 2012 | 2011 | 2012 | 2011 |
| REVENUES | \$353,910 | \$234,698 | \$1,038,405 | \$664,161 |
| COSTS AND EXPENSES: | | | | |
| Direct operating costs (excluding items below) | 188,152 | 129,767 | 558,405 | 345,558 |
| Depreciation and amortization | 63,027 | 50,306 | 183,323 | 129,267 |
| Selling, general and administrative | 25,780 | 22,629 | 73,934 | 65,172 |
| (Gain) loss on disposals of property and equipment | (559) | 14 | (2,678) | (1,408) |
| Material charges and other operating expenses | 18,174 | 20 | 30,871 | 6,120 |
| Total costs and expenses | 294,574 | 202,736 | 843,855 | 544,709 |
| INCOME FROM OPERATIONS | 59,336 | 31,962 | 194,550 | 119,452 |
| OTHER INCOME (EXPENSE): | | | | |
| Interest expense, net of interest capitalized | (13,690) | (4,233) | (37,940) | (17,001) |
| Loss on extinguishment of debt | (10,456) | - | (22,223) | - |
| Interest income | 263 | 277 | 523 | 338 |
| Other - net | (505) | (458) | 710 | (1,177) |
| Total other income (expense) - net | (24,388) | (4,414) | (58,930) | (17,840) |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 34,948 | 27,548 | 135,620 | 101,612 |
| Provision (benefit) for income taxes | 8,533 | (3,876) | 2,858 | (1,010) |
| NET INCOME FROM CONTINUING OPERATIONS | 26,415 | 31,424 | 132,762 | 102,622 |
| DISCONTINUED OPERATIONS | | | | |
| Income (loss) from discontinued operations, net of tax | 1,164 | (1,213) | (6,231) | 1,047 |
| Gain on sale of discontinued operations, net of tax | - | 163,598 | - | 588,071 |
| | 1,164 | 162,385 | (6,231) | 589,118 |
| NET INCOME | \$27,579 | \$193,809 | \$126,531 | \$691,740 |
| INCOME (LOSS) PER SHARE - BASIC: | | | | |
| Income from continuing operations | \$0.21 | \$0.25 | \$1.08 | \$0.82 |
| Discontinued operations | \$0.01 | \$1.30 | \$(0.05) | \$4.69 |
| Net income | \$0.22 | \$1.55 | \$1.03 | \$5.51 |
| INCOME (LOSS) PER SHARE - DILUTED: | | | | |
| Income from continuing operations | \$0.21 | \$0.25 | \$1.07 | \$0.81 |

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| | | | | |
|-------------------------|--------|--------|---------|----------|
| Discontinued operations | \$0.01 | \$1.28 | \$(0.05 |) \$4.64 |
| Net income | \$0.22 | \$1.53 | \$1.02 | \$5.45 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ROWAN COMPANIES PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|-----------|------------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| NET INCOME | \$27,579 | \$193,809 | \$126,531 | \$691,740 |
| Other comprehensive income, net of tax: | | | | |
| Pension and other postretirement benefit adjustments, net of income taxes of \$1,845 and \$5,494, respectively: | | | | |
| Amortization of net loss | 4,131 | - | 12,305 | - |
| Amortization of transition obligation | 77 | - | 231 | - |
| Amortization of prior service cost | (782) | - | (2,333) | - |
| OTHER COMPREHENSIVE INCOME | 3,426 | - | 10,203 | - |
| COMPREHENSIVE INCOME | \$31,005 | \$193,809 | \$136,734 | \$691,740 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ROWAN COMPANIES PLC AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In thousands)
 (Unaudited)

Nine months ended
 September 30,
 2012 2011

CASH PROVIDED BY (USED IN) OPERATIONS:

| | | |
|--|------------|------------|
| Net income | \$126,531 | \$691,740 |
| Adjustments to reconcile net income to net cash provided by operations: | | |
| Depreciation and amortization | 183,323 | 150,236 |
| Deferred income taxes | (5,068) | (30,880) |
| Provision for pension and postretirement benefits | 27,813 | 12,059 |
| Stock-based compensation expense | 20,108 | 14,264 |
| Gain on disposals of property, plant and equipment | (2,678) | (3,932) |
| Gain on sale of manufacturing operations | - | (662,448) |
| Gain on sale of land drilling operations | - | (214,803) |
| Postretirement benefit claims paid | (3,050) | (2,188) |
| Contributions to pension plans | (41,761) | (53,169) |
| Asset impairment charges | 2,896 | - |
| Write-off of deferred debt issuance costs | 690 | - |
| Changes in current assets and liabilities: | | |
| Receivables - trade and other | (115,873) | (41,570) |
| Inventories | - | (104,468) |
| Prepaid expenses and other current assets | (20,029) | (3,538) |
| Accounts payable | (1,115) | 60,785 |
| Accrued income taxes | (2,259) | 212,352 |
| Deferred revenues | (245) | 44,929 |
| Billings in excess of costs and estimated profits on uncompleted contracts | - | 29,493 |
| Other current liabilities | 10,349 | (7,449) |
| Net changes in other noncurrent assets and liabilities | 9,870 | 36,596 |
| Net cash provided by operations | 189,502 | 128,009 |

CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES:

| | | |
|--|------------|-------------|
| Capital expenditures | (566,089) | (1,155,108) |
| Proceeds from sale of manufacturing operations | - | 1,050,720 |
| Proceeds from sale of land drilling operations | - | 509,818 |
| (Increase) decrease in restricted cash | - | 15,265 |
| Proceeds from disposals of property, plant and equipment | 10,553 | 5,478 |
| Net cash provided by (used in) investing activities | (555,536) | 426,173 |

CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:

| | | |
|---|------------|-----------|
| Proceeds from borrowings | 493,415 | - |
| Debt issue costs | (799) | - |
| Repayments of borrowings | (238,453) | (38,412) |
| Payments to acquire treasury stock | - | (80,924) |
| Excess tax benefits from share-based compensation | 1,153 | 5,128 |

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| | | |
|---|-------------------|----------------|
| Proceeds from stock options | 155 | 15,107 |
| Net cash provided by (used in) financing activities | 255,471 | (99,101) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (110,563) | 455,081 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 438,853 | 437,479 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 328,290 | \$ 892,560 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ROWAN COMPANIES PLC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands)
(Unaudited)

| | Shares outstanding | Class A ordinary shares/ Common stock | Additional paid-in capital | Retained earnings | Treasury shares | Accumulated other comprehensive income (loss) | Total shareholders' equity |
|--|-----------------------|---|----------------------------------|----------------------|--------------------|--|----------------------------------|
| Balance, January 1, 2011 | 126,294 | \$15,794 | \$1,433,999 | \$2,449,521 | \$(1,509) | \$ (145,495) | \$ 3,752,310 |
| Shares issued under share-based compensation plans | 1,178 | 150 | 14,957 | - | (1,604) | - | 13,503 |
| Shares reacquired | (2,508) | - | - | - | (80,924) | - | (80,924) |
| Share-based compensation | - | - | 16,766 | - | - | - | 16,766 |
| Excess tax benefit from share-based compensation plans | - | - | 5,128 | - | - | - | 5,128 |
| Net income | - | - | - | 691,740 | - | - | 691,740 |
| Balance, September 30, 2011 | 124,964 | \$15,944 | \$1,470,850 | \$3,141,261 | \$(84,037) | \$ (145,495) | \$ 4,398,523 |
| Balance, January 1, 2012 | 123,581 | \$15,947 | \$1,478,233 | \$3,186,362 | \$(128,884) | \$ (225,671) | \$ 4,325,987 |
| Shares issued under share-based compensation plans | 553 | 64 | (21,362) | - | 17,483 | - | (3,815) |
| Share-based compensation | - | - | 18,252 | - | - | - | 18,252 |
| Excess tax benefit from share-based compensation plans | - | - | 1,153 | - | - | - | 1,153 |

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| | | | | | | | |
|---|---------|----------|-------------|-------------|------------|---------------|--------------|
| Retirement benefit adjustments, net of taxes of \$5,494 | - | - | - | - | - | 10,203 | 10,203 |
| Cancellation of treasury shares | - | (419) | (109,068) | - | 109,487 | - | - |
| Other | 52 | - | - | - | - | - | - |
| Net income | - | - | - | 126,531 | - | - | 126,531 |
| Balance, September 30, 2012 | 124,186 | \$15,592 | \$1,367,208 | \$3,312,893 | \$(1,914) | \$ (215,468) | \$ 4,478,311 |

See Notes to Unaudited Condensed Consolidated Financial Statements.

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Nature of Operations and Basis of Presentation

On May 4, 2012, Rowan Companies plc, a public limited company incorporated under the laws of England and Wales (“Rowan UK”), became the successor issuer to Rowan Companies, Inc. (“Rowan Delaware”) pursuant to an agreement and plan of merger and reorganization (the “redomestication”) approved by the stockholders of Rowan Delaware on April 16, 2012. As a result of the redomestication, Rowan UK became the parent company of the Rowan group of companies and our place of incorporation was effectively changed from Delaware to the United Kingdom. We remain subject to the Securities and Exchange Commission reporting requirements, the mandates of the Sarbanes-Oxley Act and the applicable corporate governance rules of the NYSE, and we will continue to report our consolidated financial results in U.S. dollars and in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). We also must comply with additional reporting requirements of English law. The redomestication was accounted for as an internal reorganization of entities under common control; therefore, for purposes of these consolidated financial statements, the carrying values of assets and liabilities of the merged entities were carried forward without adjustment. Unless the context otherwise requires, the terms “Company,” “we,” “us” and “our” are used to refer to Rowan UK (or Rowan Delaware for periods prior to the redomestication) and its consolidated subsidiaries.

The Company is a major provider of international and domestic offshore oil and gas contract drilling services and provides its services utilizing a fleet of 31 self-elevating mobile offshore “jack-up” drilling units. The Company’s primary focus is on high-specification and premium jack-up rigs, which its customers use for exploratory and development drilling and, in certain areas, well workover operations. Additionally, the Company has four ultra-deepwater drillships under construction, the first of which is scheduled for delivery in late 2013.

The Company conducts offshore drilling operations in various markets throughout the world including the North Sea, Middle East, Southeast Asia and U.S. Gulf of Mexico, among others.

The financial statements included in this Form 10-Q are presented in U.S. dollars and include the accounts of the Company and its subsidiaries, all of which are wholly owned. Intercompany balances and transactions are eliminated in consolidation.

The financial statements included in this Form 10-Q have been prepared without audit in accordance with US GAAP for interim financial information and the rules and regulations of the Securities and Exchange Commission. Certain information and notes have been condensed or omitted as permitted by those rules and regulations. Management believes the accompanying financial statements contain all adjustments, which are of a normal recurring nature unless otherwise noted, necessary for a fair statement of the results for the interim periods presented. The Company’s results of operations and cash flows for the interim periods are not necessarily indicative of results to be expected for the full year. The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011, as amended by Form 8-K filed with the Securities and Exchange Commission on May 16, 2012.

In June and September 2011, the Company completed the sales of its manufacturing subsidiary, LeTourneau Technologies, Inc (“LeTourneau”) and its land drilling operations, respectively. Manufacturing operations were previously reported as the “Drilling Products and Systems” and the “Mining, Forestry and Steel Products” segments, and land drilling operations were previously reported as a component of the “Drilling Services” segment. The Company

does not currently segment its continuing offshore drilling business for reporting purposes. Results of the former manufacturing and land drilling operations are classified as discontinued operations in the statement of income (see Note 2, "Discontinued Operations"). As permitted under US GAAP, the Company has chosen not to separately disclose cash flows pertaining to discontinued operations in the Condensed Consolidated Statement of Cash Flows.

The financial information as of December 31, 2011, presented in this report does not constitute the Company's statutory accounts for that year within the meaning of the U.K. Companies Act 2006. Statutory accounts as required by the Companies Act 2006 for the year ended December 31, 2011 have been delivered to the Registrar of Companies in the U.K. The auditors reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under s498(2) or (3) Companies Act 2006.

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 2 – Discontinued Operations

In June and September 2011, the Company completed the sales of its manufacturing and land drilling operations, respectively. Discontinued operations for the 2012 periods primarily consisted of write-offs of receivables assumed and a working capital adjustment to the sale price of the land drilling business, among other items. The following table sets forth the components of “Discontinued operations, net of tax” (in thousands):

| | 2012 | | | 2011 | | |
|--|---------------|------------|------------|---------------|-----------|------------|
| | Manufacturing | Drilling | Total | Manufacturing | Drilling | Total |
| Three months ended September 30: | | | | | | |
| Revenues | \$- | \$- | \$- | \$- | \$35,804 | \$35,804 |
| Pretax income (loss) | \$1,666 | \$(23) | \$1,643 | \$(8,449) | \$6,429 | \$(2,020) |
| Provision (benefit) for taxes on income | 2,090 | (1,611) | 479 | (312) | (495) | (807) |
| Income (loss) from discontinued operations, net of tax | (424) | 1,588 | 1,164 | (8,137) | 6,924 | (1,213) |
| Pretax gain on sale of discontinued operations | - | - | - | 9,571 | 214,803 | 224,374 |
| Provision for tax on gain on sale | - | - | - | 990 | 59,786 | 60,776 |
| Gain on sale of discontinued operations, net of tax | - | - | - | 8,581 | 155,017 | 163,598 |
| Discontinued operations, net of tax | \$(424) | \$1,588 | \$1,164 | \$444 | \$161,941 | \$162,385 |
| Nine months ended September 30: | | | | | | |
| Revenues | \$- | \$- | \$- | \$224,488 | \$128,318 | \$352,806 |
| Pretax income (loss) | \$(2,314) | \$(3,463) | \$(5,777) | \$(9,399) | \$16,083 | \$6,684 |
| Provision (benefit) for taxes on income | 3,269 | (2,815) | 454 | 2,694 | 2,943 | 5,637 |
| Income (loss) from discontinued operations, net of tax | (5,583) | (648) | (6,231) | (12,093) | 13,140 | 1,047 |
| Pretax gain on sale of discontinued operations | - | - | - | 670,448 | 214,803 | 885,251 |
| | - | - | - | 237,394 | 59,786 | 297,180 |

Provision for tax on gain on sale

| | | | | | | |
|---|---|---|---|---------|---------|---------|
| Gain on sale of discontinued operations, net of tax | - | - | - | 433,054 | 155,017 | 588,071 |
|---|---|---|---|---------|---------|---------|

| | | | | | | |
|-------------------------------------|----------|----------|------------|-------------|-----------|-----------|
| Discontinued operations, net of tax | \$(5,583 |) \$(648 |) \$(6,231 |) \$420,961 | \$168,157 | \$589,118 |
|-------------------------------------|----------|----------|------------|-------------|-----------|-----------|

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

In connection with the sale of LeTourneau, the Company took ownership of a land rig that LeTourneau was constructing on behalf of a customer, plus a related customer deposit. The Company is holding the asset for sale. The asset and related deposit are classified as other assets and deferred revenues, respectively, in the table below (in thousands):

| | September 30, 2012 | | | December 31, 2011 | | |
|--|--------------------|----------|----------|-------------------|----------|----------|
| | Manufacturing | Drilling | Total | Manufacturing | Drilling | Total |
| Receivables - trade and other | \$- | \$- | \$- | \$- | \$4,000 | \$4,000 |
| Other assets | 26,948 | - | 26,948 | 23,661 | - | 23,661 |
| Assets of discontinued operations | \$26,948 | \$- | \$26,948 | \$23,661 | \$4,000 | \$27,661 |
| Deferred revenues | \$20,122 | \$- | \$20,122 | \$20,122 | \$- | \$20,122 |
| Other current liabilities | 1,133 | - | 1,133 | 1,183 | 3,700 | 4,883 |
| Liabilities of discontinued operations | \$21,255 | \$- | \$21,255 | \$21,305 | \$3,700 | \$25,005 |

Note 3 – Earnings Per Share

A reconciliation of basic and diluted shares follows (in thousands):

| | Three months ended | | Nine months ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2012 | September 30, 2011 | September 30, 2012 | September 30, 2011 |
| Average common shares outstanding - basic | 123,132 | 125,237 | 122,947 | 125,546 |
| Effect of dilutive securities - share-based compensation | 905 | 1,207 | 850 | 1,410 |
| Average common shares - diluted | 124,037 | 126,444 | 123,797 | 126,956 |

There were no adjustments to net income required for purposes of computing diluted earnings per share.

Share options and appreciation rights granted under share-based compensation plans are antidilutive and excluded from diluted earnings per share when their exercise or strike price exceeds the average stock market price during the period. The following table sets forth antidilutive shares excluded from diluted earnings per share. Such securities could potentially dilute earnings per share in the future (in thousands):

| | Three months ended | | Nine months ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2012 | September 30, 2011 | September 30, 2012 | September 30, 2011 |
| | | | | |

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| | | | | |
|-------------------------------------|-----|-----|-----|-----|
| Employee and director share options | 42 | 42 | 42 | 42 |
| Share appreciation rights | 566 | 314 | 616 | 257 |
| Total potentially dilutive shares | 608 | 356 | 658 | 299 |

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 4 – Pension and Other Postretirement Benefits

The Company provides defined-benefit pension, health care and life insurance benefits upon retirement for certain full-time employees.

Recognized net periodic pension cost included the following components (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|------------------------------------|-------------------------------------|------------|------------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Service cost | \$2,750 | \$3,142 | \$8,192 | \$9,323 |
| Interest cost | 7,653 | 7,802 | 22,791 | 23,152 |
| Expected return on plan assets | (9,469) | (8,445) | (28,203) | (25,058) |
| Recognized actuarial loss | 4,887 | (7,221) | 18,691 | 4,294 |
| Settlement loss | 5,126 | - | 5,126 | - |
| Amortization of prior service cost | (1,171) | (1,684) | (3,488) | (4,996) |
| Total net pension cost | \$9,776 | \$(6,406) | \$23,109 | \$6,715 |
| Less: Discontinued operations | (1,370) | (11,450) | 54 | (6,855) |
| Continuing operations | \$11,146 | \$5,044 | \$23,055 | \$13,570 |

Recognized other postretirement benefit cost included the following components (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|---------|------------------------------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| Service cost | \$463 | \$547 | \$1,378 | \$1,623 |
| Interest cost | 952 | 1,064 | 2,836 | 3,158 |
| Recognized actuarial loss | 82 | 75 | 243 | 221 |
| Amortization of transition obligation | 120 | 167 | 357 | 495 |
| Amortization of prior service cost | (37) | (52) | (110) | (153) |
| Total other postretirement benefit cost | \$1,580 | \$1,801 | \$4,704 | \$5,344 |
| Less: Discontinued operations | - | 399 | - | 1,618 |
| Continuing operations | \$1,580 | \$1,402 | \$4,704 | \$3,726 |

During the nine months ended September 30, 2012, the Company contributed \$44.8 million to its pension and other postretirement benefit plans and expects to make additional contributions to such plans totaling approximately \$1.4 million during the remainder of 2012.

Under the terms of the sale agreements of the Company's manufacturing and land drilling operations, the Company retained pension assets and liabilities related to employees of the former operations. As a result, the Company may be

required to make additional contributions to the plan in excess of currently estimated amounts. Management does not believe that any such additional contributions will have a material effect on the Company's financial position, results of operations or cash flows.

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Note 5 – Long-term Debt

Long-term debt consisted of the following (in thousands):

| | September 30, 2012 | December 31, 2011 |
|---|--------------------------|-------------------------|
| 3.158% Title XI note payable, due July 2012, secured by the Bob Palmer | \$- | \$ 104,047 |
| 5.88% Title XI note payable, due March 2012, secured by the Gorilla VI | - | 7,109 |
| 2.80% Title XI note payable, due October 2013, secured by the Gorilla VII | - | 30,898 |
| 5% Senior Notes, due September 2017, net of discount (5.1% effective rate) | 398,606 | 398,394 |
| 4.33% Title XI note payable, due May 2019, secured by the Scooter Yeargain | - | 45,598 |
| 7.875% Senior Notes, due August 2019, net of discount (8.0% effective rate) | 497,759 | 497,511 |
| 3.525% Title XI note payable, due May 2020, secured by the Bob Keller | - | 50,801 |
| 4.875% Senior Notes, due June 2022, net of discount (5.0% effective rate) | 496,786 | - |
| Total long-term debt | 1,393,151 | 1,134,358 |
| Less: Current maturities | - | (45,023) |
| Long-term debt, excluding current maturities | \$ 1,393,151 | \$ 1,089,335 |

In April 2012, the U.S. Department of Transportation Maritime Administration (“MarAd”), which had previously guaranteed certain of the Company’s debt securities under the Title XI Federal Ship Financing Program (the “Title XI Notes”), denied the Company’s request for consent with respect to the redomestication. As a result, the Company redeemed \$127.3 million aggregate principal amount of the Title XI Notes in the second quarter of 2012 for \$141.1 million in cash, including principal, make-whole premiums and accrued interest, and recognized a pretax loss on debt extinguishment of \$11.8 million, including \$0.3 million of noncash deferred financing costs. In July 2012, the Company redeemed the remaining Title XI Note in the principal amount of \$98.8 million for \$110.4 million in cash, including principal, make-whole premium and accrued interest, and recognized a pretax loss on debt extinguishment of \$10.5 million, including \$0.4 million of noncash deferred financing costs, in the third quarter.

In connection with the redomestication, on May 4, 2012, Rowan UK became a party to and a borrower and guarantor under the credit facility, dated September 16, 2010, among Rowan Delaware, Wells Fargo Bank, National Association, as administrative agent and lender, and certain other lenders. Rowan UK entered into a guaranty in favor of the administrative agent for the benefit of the lenders whereby Rowan UK fully and unconditionally guarantees the obligations of Rowan Delaware under the credit facility.

Additionally, on May 4, 2012, Rowan UK and Rowan Delaware entered into a third supplemental indenture to the indenture dated as of July 21, 2009, between Rowan Delaware and U.S. Bank National Association, as indenture trustee, providing for an unconditional and irrevocable guarantee by Rowan UK of Rowan Delaware’s 5% Senior Notes due 2017 and 7.875% Senior Notes due 2019, which had an aggregate outstanding principal balance of \$900 million at September 30, 2012. The Rowan UK guarantee provides for the unconditional and irrevocable guarantee of the prompt payment, when due, of any amount owed to the holders of the notes.

On May 21, 2012, Rowan UK, as guarantor, and its 100% owned subsidiary, Rowan Delaware, as issuer, completed the issuance and sale in a public offering of \$500 million aggregate principal amount of 4.875% Senior Notes due

2022 (the “4.875% Notes”), at a price to the public of 99.333% of the principal amount. Net proceeds were approximately \$493 million, which were used, in part, to replenish cash used to redeem the Title XI Notes in the second and third quarters of 2012. The 4.875% Notes will mature on June 1, 2022. Interest on the 4.875% Notes is payable semi-annually on June 1 and December 1 of each year, commencing December 1, 2012.

The 4.875% Notes are Rowan Delaware’s senior unsecured obligations and rank senior in right of payment to all of its subordinated indebtedness and pari passu in right of payment with any of Rowan Delaware’s existing and future senior indebtedness, including its 5% Senior Notes due 2017, 7.875% Senior Notes due 2019, and any indebtedness under Rowan Delaware’s senior revolving credit facility. The 4.875% Notes rank effectively junior to Rowan Delaware’s future secured indebtedness, if any, to the extent of the value of its assets constituting collateral securing that indebtedness and to all existing and future indebtedness of its subsidiaries (other than indebtedness and liabilities owed to Rowan Delaware). The 4.875% Notes are fully and unconditionally guaranteed on a senior unsecured basis by Rowan UK.

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

All or part of the 4.875% Notes may be redeemed at any time prior to March 1, 2022, for an amount equal to 100% of the principal amount plus a make-whole premium and accrued and unpaid interest to the redemption date, and, at any time after March 1, 2022, for an amount equal to 100% of the principal amount plus accrued and unpaid interest to the redemption date.

The indenture governing the 4.875% Notes contains covenants that, among other things, limit the ability of Rowan Delaware or its subsidiaries to create liens that secure debt or engage in sale and leaseback transactions.

As of September 30, 2012, no principal payments will be required with respect to our outstanding notes during the remainder of 2012 through 2016, and \$400 million becomes due in September 2017.

Note 6 – Commitments and Contingent Liabilities

In September 2012, the Company exercised its option with Hyundai Heavy Industries Co., Ltd (“Hyundai”) for the construction of a fourth ultra-deepwater drillship at its Ulsan, South Korea, shipyard scheduled for delivery in March 2015. The agreement with Hyundai also includes an option for a similar fifth drillship exercisable in the fourth quarter of 2012, for delivery in the third quarter of 2015.

The following table presents the status of the Company’s rig construction program as of September 30, 2012. Amounts include capitalized interest and an estimate for project contingencies (in millions):

| | Expected delivery date | Total estimated project costs | Total costs incurred through September 30, 2012 | Projected costs for the remainder of 2012 | Projected costs in 2013 | Projected costs in 2014 | Projected costs in 2015 | Total future costs |
|-------------------|------------------------|-------------------------------|---|---|-------------------------|-------------------------|-------------------------|--------------------|
| Rowan Renaissance | Dec-13 | \$731 | \$195 | \$34 | \$491 | \$11 | \$- | \$536 |
| Rowan Resolute | Jun-14 | 739 | 184 | 9 | 159 | 387 | - | 555 |
| Rowan Reliance | Oct-14 | 731 | 184 | 2 | 66 | 475 | 4 | 547 |
| Drillship No. 4 | Mar-15 | 757 | 167 | 4 | 50 | 49 | 487 | 590 |
| | | \$2,958 | \$730 | \$49 | \$766 | \$922 | \$491 | \$2,228 |

The Company periodically employs letters of credit or other bank-issued guarantees in the normal course of its businesses, and had outstanding letters of credit of approximately \$26.1 million at September 30, 2012.

As previously reported, on May 2, 2012, as the EXL I was being towed toward a shipyard in south Texas in preparation for its mobilization to Indonesia, a passing tanker lost power and collided with the rig. All personnel aboard the rig were evacuated safely, but the port side of the rig sustained substantial damage. The cost to repair the

rig is currently estimated to be approximately \$14.1 million, which is being recognized as the costs are incurred. As of September 30, 2012, we had incurred repair costs totaling \$8.9 million. The Company has filed suit against who it believes are the tanker's owners and operators and seeks damages primarily for repairs to and loss of use of the rig. The tanker owners have sought relief under the Limitation of a Shipowner's Liability Act, claiming that damages should be limited to the post-accident value of the tanker plus freight. At this time, both suits are in the preliminary stages of litigation. The Court has set a trial date of October 14, 2013. In the event the tanker owners are successful in their limitation, we believe our potential insurance claims for physical damage would be below our \$25 million deductible. Management believes the Company's claims are legally and factually strong; however, it cannot reasonably estimate the ultimate outcome of the litigation.

In 2009, the Company recognized a \$25.4 million tax benefit as a result of applying the facts of a third-party tax case to the Company's situation. That case provided a more favorable tax treatment for certain foreign contracts entered into in prior years. In

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2011, the IRS issued an assessment contesting our claim. We plan to vigorously defend our position and continue to believe that we will more likely than not prevail.

We are from time to time a party to various lawsuits filed by current or former employees that are incidental to our operations in which the claimants seek an unspecified amount of monetary damages for personal injury, including injuries purportedly resulting from exposure to asbestos on our drilling rigs. At September 30, 2012, there were approximately 21 asbestos related lawsuits in which we are one of many defendants. These lawsuits have been filed in the state courts of Louisiana, Mississippi and Texas. We intend to vigorously defend against the litigation. We are unable to predict the ultimate outcome of these lawsuits; however, we do not believe the ultimate resolution of these matters will have a material adverse effect on our financial position, results of operations or cash flows.

The Company is involved in various other legal proceedings incidental to its businesses and is vigorously defending its position in all such matters. Management believes that there are no known contingencies, claims or lawsuits that could have a material effect on its financial position, results of operations or cash flows.

Note 7 – Share-Based Compensation

On March 7, 2012, the Company granted restricted shares and share appreciation rights with a grant-date fair value aggregating \$26.4 million. The awards vest in one-third annual increments over a three-year service period. The aggregate fair value, net of estimated forfeitures, was \$24.9 million, which will be amortized on a straight-line basis over three years from the grant date. The Company uses the simplified method for determining the expected life of share appreciation rights because the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term, as permitted under US GAAP.

Additionally, on March 7, 2012, the Company granted performance units with a grant-date fair value of \$3.2 million. The amount ultimately payable will depend on the Company's total shareholder return ranking compared to a group of peer companies over a maximum three-year performance period and could range from zero to \$7.7 million. The awards cliff vest at the end of three years. If the payout metrics are met, the Compensation Committee intends to settle the performance units in cash. The Company has accounted for the awards as a liability. Compensation is recognized on a straight-line basis over three years from the grant date and is remeasured to fair value at each quarterly report date.

In September 2012, the Company accelerated the vesting of share-based awards and extended the exercise period for vested options held by a retiring employee whose awards would otherwise have been forfeited upon termination. As a result of the modification, the Company recognized additional compensation expense in the third quarter of 2012 in the amount of \$2.3 million, which is classified within material charges in the statement of income. The Company valued the modified options assuming they are to be outstanding until or near such time as they expire.

At September 30, 2012, the Company had approximately \$34.5 million of estimated unrecognized future share-based compensation, which is expected to be recognized as compensation expense over a remaining weighted-average period of 2.0 years.

Note 8 – Other Financial Statement Disclosures

Fair Values of Financial Instruments – Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy prescribed by GAAP requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are:

- Level 1 – Quoted prices for identical instruments in active markets,
- Level 2 – Quoted market prices for similar instruments in active markets; quoted prices for identical instruments in markets that are not active, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets and
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as those used in pricing models or discounted cash flow methodologies, for example.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Those financial instruments that are required to be measured at fair value include the Company's cash equivalents, trade receivables and trade payables, whose carrying value approximated their fair values due to their short maturities.

Those financial instruments not required to be measured at fair value consist of the Company's publicly traded debt securities. Fair values of the Company's debt securities were provided by one to two brokers who make a market in our debt securities and were measured using a market-approach valuation technique. Fair value was determined by adding a spread based on actual trades for that security (or a trader quote where actual trades were unavailable) to the applicable benchmark Treasury security with a comparable maturity in order to derive a current yield. The yield is then used to determine a price given the individual security's coupon rate and maturity. Such inputs are considered "significant other observable inputs," which are categorized as Level 2 inputs in the fair value hierarchy. Estimated fair values and related carrying values of our long-term debt securities are shown below (in thousands):

| | September 30, 2012 | | December 31, 2011 | |
|-------------------------------|--------------------|----------------|-------------------|----------------|
| | Fair value | Carrying value | Fair value | Carrying value |
| 5% Senior Notes, due 2017 | \$440,678 | \$398,606 | \$420,019 | \$398,394 |
| 7.875% Senior Notes, due 2019 | 618,846 | 497,759 | 588,495 | 497,511 |
| 4.875 Senior Notes, due 2022 | 535,451 | 496,786 | - | - |
| Title XI Notes | - | - | 257,185 | 238,453 |
| | \$1,594,975 | \$1,393,151 | \$1,265,699 | \$1,134,358 |

Supplemental Cash Flow Information – Accrued capital expenditures, which are excluded from capital expenditures in the Condensed Consolidated Statements of Cash Flows until settlement, totaled \$41.3 million and \$38.7 million at September 30, 2012 and 2011, respectively. Interest capitalized in connection with rig construction projects totaled \$8.3 million and \$22.4 million in three and nine months ended September 30, 2012, as compared to \$13.9 million and \$39.6 million, respectively, in the comparable periods of the prior year.

Income Taxes – Rowan Delaware, our predecessor company, was domiciled in the U.S. and subject to a statutory rate of 35% through May 4, 2012, the effective date of the redomestication. Effective May 4, 2012, the Company has been subject to the U.K. statutory rate of 24%.

Historically, Rowan Delaware has conducted its foreign operations through its U.S. subsidiaries, which resulted in income tax at or near the U.S. statutory rate of 35%. In late 2009, Rowan Delaware began operating many of its foreign-based rigs through its non-U.S. subsidiaries. We do not provide deferred taxes on the undistributed non-U.S. earnings of Rowan Delaware or its non-U.S. subsidiaries because our policy and intention is to reinvest such earnings outside the U.S. indefinitely or until such time that such undistributed earnings can be distributed in a tax-efficient manner. Furthermore, both our U.S. and non-U.S. subsidiaries have significant net assets, liquidity, contract backlog and/or other financial resources available to meet their operational and capital investment requirements and otherwise allow us to continue to maintain our policy of reinvesting such undistributed earnings outside the U.S. indefinitely.

In accordance with generally accepted accounting principles for interim reporting, the Company estimates its full-year effective tax rate and applies this rate to its year-to-date pretax income. In addition, the Company separately

calculates the tax impact of unusual items, if any. For the three and nine months ended September 30, 2012, we recognized income tax expense of \$8.5 million and \$2.9 million, respectively, on income from continuing operations as compared to benefits of \$3.9 million and \$1.0 million, respectively, for the comparable prior-year periods. The low effective income tax rates in 2012 (relative to the 35% U.S. and 24% U.K. statutory rates) and the recognition of income tax benefits in 2011 were primarily due to the amortization of benefits related to outbidding certain rigs to our non-U.S. subsidiaries in prior years. Also impacting taxes in each period were the removal of the Company's manufacturing and land drilling operations, whose earnings were subject to a 35% U.S. statutory rate, and a significant proportion of income earned in lower-tax jurisdictions.

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Material Charges and Other Operating Expenses – Components of material charges follow (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|------|------------------------------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| Redomestication expenses | \$1,895 | \$- | \$11,696 | \$- |
| Repair costs for EXL I | 8,855 | - | 8,855 | - |
| Pension settlement loss | 5,126 | - | 5,126 | - |
| Share-based compensation for retiring employee | 2,298 | - | 2,298 | - |
| Steel impairment costs | - | - | 2,896 | - |
| Settlement of litigation - Loss of Rowan Halifax | - | 20 | - | 6,120 |
| | \$18,174 | \$20 | \$30,871 | \$6,120 |

Note 9 – Guarantees of Registered Securities

On May 4, 2012, the effective date of the Company’s redomestication (the “Redomestication Date”), Rowan UK and Rowan Delaware entered into the third supplemental indenture to the indenture dated as of July 21, 2009, as amended and supplemented, among Rowan UK, Rowan Delaware and U.S. Bank National Association, as trustee, providing for, among other things, the unconditional and irrevocable guarantee by Rowan UK of the prompt payment, when due, of any amount owed to the holders of Rowan Delaware's 5% Senior Notes due 2017 and 7.875% Senior Notes due 2019 (together with Rowan Delaware’s 4.875% Senior Notes due 2022, which were issued in May 2012 and guaranteed by Rowan UK, the “Senior Notes”).

The following condensed consolidating financial information is presented on the equity method of accounting in accordance with Rule 3-10 of Regulation S-X in connection with Rowan UK’s guarantee of the Senior Notes.

Prior to the Redomestication, Rowan Delaware was the parent of the Rowan group of companies, including Rowan UK, which was formed in November 2011. Effective on the Redomestication Date, Rowan UK became the parent and guarantor of Rowan Delaware’s Senior Notes. In accordance with the accounting guidance for a merger of entities under common control, the financial information which follows is presented as though Rowan UK were the parent of the Rowan group of companies for all periods presented.

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Balance Sheets
September 30, 2012
(in thousands)
(unaudited)

| | Rowan UK (Parent) | Rowan Delaware (Issuer) | Other non-guarantor subsidiaries | Consolidating adjustments | Consolidated |
|--|----------------------|-------------------------------|--|------------------------------|---------------------|
| CURRENT ASSETS: | | | | | |
| Cash and cash equivalents | \$72,819 | \$42,885 | \$ 212,586 | \$ - | \$ 328,290 |
| Receivables - trade and other | - | 33,352 | 370,113 | - | 403,465 |
| Other current assets | 471 | 48,967 | 58,356 | - | 107,794 |
| Assets of discontinued operations | - | 26,948 | - | - | 26,948 |
| Total current assets | 73,290 | 152,152 | 641,055 | - | 866,497 |
| Property, plant and equipment - gross | - | 1,335,097 | 6,211,935 | - | 7,547,032 |
| Less accumulated depreciation and amortization | - | 475,821 | 1,049,262 | - | 1,525,083 |
| Property, plant and equipment - net | - | 859,276 | 5,162,673 | - | 6,021,949 |
| Investments in subsidiaries | 4,501,957 | 1,420,157 | - | (5,922,114) | - |
| Due from affiliates | - | 3,959,273 | - | (3,959,273) | - |
| Other assets | - | 32,168 | 68,232 | - | 100,400 |
| | \$4,575,247 | \$6,423,026 | \$ 5,871,960 | \$ (9,881,387) | \$ 6,988,846 |
| CURRENT LIABILITIES: | | | | | |
| Accounts payable - trade | \$1,021 | \$21,522 | \$ 67,558 | \$ - | \$ 90,101 |
| Deferred revenues | - | - | 35,975 | - | 35,975 |
| Accrued liabilities | (46) | 48,485 | 53,933 | - | 102,372 |
| Liabilities of discontinued operations | - | 21,255 | - | - | 21,255 |
| Total current liabilities | 975 | 91,262 | 157,466 | - | 249,703 |
| Long-term debt - less current maturities | - | 1,393,151 | - | - | 1,393,151 |
| Due to affiliates | 95,961 | - | 3,863,312 | (3,959,273) | - |
| Other liabilities | - | 313,581 | 66,849 | - | 380,430 |
| Deferred income taxes - net | - | 123,075 | 364,176 | - | 487,251 |
| Shareholders' equity | 4,478,311 | 4,501,957 | 1,420,157 | (5,922,114) | 4,478,311 |
| | \$4,575,247 | \$6,423,026 | \$ 5,871,960 | \$ (9,881,387) | \$ 6,988,846 |

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Balance Sheets
December 31, 2011
(in thousands)

| | Rowan UK (Parent) | Rowan Delaware (Issuer) | Other non-guarantor subsidiaries | Consolidating adjustments | Consolidated |
|--|----------------------|-------------------------------|--|------------------------------|---------------------|
| CURRENT ASSETS: | | | | | |
| Cash and cash equivalents | \$21,472 | \$184,677 | \$ 232,704 | \$ - | \$ 438,853 |
| Receivables - trade and other | - | 33,380 | 250,212 | - | 283,592 |
| Other current assets | - | 46,137 | 25,472 | - | 71,609 |
| Assets of discontinued operations | - | 27,661 | - | - | 27,661 |
| Total current assets | 21,472 | 291,855 | 508,388 | - | 821,715 |
| Property, plant and equipment - gross | - | 1,290,526 | 5,738,796 | - | 7,029,322 |
| Less accumulated depreciation and amortization | - | 441,949 | 908,660 | - | 1,350,609 |
| Property, plant and equipment - net | - | 848,577 | 4,830,136 | - | 5,678,713 |
| Investments in subsidiaries | 4,306,396 | 1,101,982 | - | (5,408,378) | - |
| Due from affiliates | - | 3,732,488 | 333,357 | (4,065,845) | - |
| Other assets | - | 30,581 | 66,836 | - | 97,417 |
| | \$4,327,868 | \$6,005,483 | \$ 5,738,717 | \$ (9,474,223) | \$ 6,597,845 |
| CURRENT LIABILITIES: | | | | | |
| Current maturities of long-term debt | \$- | \$22,464 | \$ 22,559 | \$ - | \$ 45,023 |
| Accounts payable - trade | 730 | 43,091 | 67,261 | - | 111,082 |
| Deferred revenues | - | - | 36,220 | - | 36,220 |
| Accrued liabilities | - | 102,785 | 28,256 | - | 131,041 |
| Liabilities of discontinued operations | - | 25,005 | - | - | 25,005 |
| Total current liabilities | 730 | 193,345 | 154,296 | - | 348,371 |
| Long-term debt - less current maturities | - | 1,073,887 | 15,448 | - | 1,089,335 |
| Due to affiliates | 1,151 | - | 4,064,694 | (4,065,845) | - |
| Other liabilities | - | 303,117 | 54,592 | - | 357,709 |
| Deferred income taxes - net | - | 128,738 | 347,705 | - | 476,443 |
| Shareholders' equity | 4,325,987 | 4,306,396 | 1,101,982 | (5,408,378) | 4,325,987 |
| | \$4,327,868 | \$6,005,483 | \$ 5,738,717 | \$ (9,474,223) | \$ 6,597,845 |

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Income Statements
Three months ended September 30, 2012
(in thousands)
(unaudited)

| | Rowan UK (Parent) | Rowan Delaware (Issuer) | Other non-guarantor subsidiaries | Consolidating adjustments | Consolidated |
|---|----------------------|-------------------------------|--|------------------------------|------------------|
| REVENUES | \$- | \$39,847 | \$ 347,176 | \$ (33,113) | \$ 353,910 |
| COSTS AND EXPENSES: | | | | | |
| Direct operating costs (excluding items below) | (162) | 7,487 | 213,940 | (33,113) | 188,152 |
| Depreciation and amortization | - | 13,915 | 49,112 | - | 63,027 |
| Selling, general and administrative | 5,164 | 99 | 20,517 | - | 25,780 |
| Loss (gain) on disposals of property and equipment | - | (2,159) | 1,600 | - | (559) |
| Material charges and other operating expenses | 1,895 | 8,962 | 7,317 | - | 18,174 |
| Total costs and expenses | 6,897 | 28,304 | 292,486 | (33,113) | 294,574 |
| INCOME (LOSS) FROM OPERATIONS | (6,897) | 11,543 | 54,690 | - | 59,336 |
| OTHER INCOME (EXPENSE): | | | | | |
| Interest expense, net of interest capitalized | - | (13,777) | 87 | - | (13,690) |
| Interest income | 36 | 126 | 101 | - | 263 |
| Loss on debt extinguishment | - | (10,423) | (33) | - | (10,456) |
| Other - net | 1 | (324) | (182) | - | (505) |
| Total other income (expense) - net | 37 | (24,398) | (27) | - | (24,388) |
| INCOME (LOSS) FROM CONTINUING OPERATIONS | | | | | |
| BEFORE INCOME TAXES | (6,860) | (12,855) | 54,663 | - | 34,948 |
| (Benefit) provision for income taxes | - | 2,721 | 5,812 | - | 8,533 |
| NET INCOME (LOSS) FROM CONTINUING OPERATIONS | (6,860) | (15,576) | 48,851 | - | 26,415 |
| DISCONTINUED OPERATIONS, NET OF TAX | - | 1,164 | - | - | 1,164 |

| | | | | | |
|---|----------|----------|-----------|--------------|-----------|
| EQUITY IN EARNINGS OF SUBSIDIARIES, NET OF TAX | 34,439 | 48,851 | - | (83,290) | - |
| NET INCOME | \$27,579 | \$34,439 | \$ 48,851 | \$ (83,290) | \$ 27,579 |

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Income Statements
Three months ended September 30, 2011
(in thousands)
(unaudited)

| | Rowan UK (Parent) | Rowan Delaware (Issuer) | Other non-guarantor subsidiaries | Consolidating adjustments | Consolidated |
|---|----------------------|-------------------------------|--|------------------------------|--------------|
| REVENUES | \$- | \$20,830 | \$ 225,393 | \$ (11,525) | \$ 234,698 |
| COSTS AND EXPENSES: | | | | | |
| Direct operating costs (excluding items below) | - | 13,183 | 128,109 | (11,525) | 129,767 |
| Depreciation and amortization | - | 14,889 | 35,417 | - | 50,306 |
| Selling, general and administrative | - | 5,764 | 16,865 | - | 22,629 |
| Loss (gain) on disposals of property and equipment | - | (22) | 36 | - | 14 |
| Material charges and other operating expenses | - | 20 | - | - | 20 |
| Total costs and expenses | - | 33,834 | 180,427 | (11,525) | 202,736 |
| INCOME (LOSS) FROM OPERATIONS | - | (13,004) | 44,966 | - | 31,962 |
| OTHER INCOME (EXPENSE): | | | | | |
| Interest expense, net of interest capitalized | - | (3,963) | (270) | - | (4,233) |
| Interest income | - | 246 | 31 | - | 277 |
| Other - net | - | 9 | (467) | - | (458) |
| Total other income (expense) - net | - | (3,708) | (706) | - | (4,414) |
| INCOME (LOSS) FROM CONTINUING OPERATIONS | | | | | |
| BEFORE INCOME TAXES | - | (16,712) | 44,260 | - | 27,548 |
| (Benefit) provision for income taxes | - | (2,464) | (1,412) | - | (3,876) |
| NET INCOME (LOSS) FROM CONTINUING OPERATIONS | - | (14,248) | 45,672 | - | 31,424 |
| DISCONTINUED OPERATIONS, NET OF TAX | | | | | |
| | - | 163,598 | (1,213) | - | 162,385 |
| | 193,809 | 44,459 | - | (238,268) | - |

EQUITY IN EARNINGS OF
SUBSIDIARIES, NET OF TAX

| | | | | | |
|------------|-----------|-----------|-----------|---------------|------------|
| NET INCOME | \$193,809 | \$193,809 | \$ 44,459 | \$ (238,268) | \$ 193,809 |
|------------|-----------|-----------|-----------|---------------|------------|

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Income Statements
Nine months ended September 30, 2012
(in thousands)
(unaudited)

| | Rowan UK (Parent) | Rowan Delaware (Issuer) | Other non-guarantor subsidiaries | Consolidating adjustments | Consolidated |
|---|----------------------|-------------------------------|--|------------------------------|------------------|
| REVENUES | \$- | \$121,110 | \$ 1,018,233 | \$ (100,938) | \$ 1,038,405 |
| COSTS AND EXPENSES: | | | | | |
| Direct operating costs (excluding items below) | - | 21,776 | 637,567 | (100,938) | 558,405 |
| Depreciation and amortization | - | 40,588 | 142,735 | - | 183,323 |
| Selling, general and administrative | 9,839 | 10,009 | 54,086 | - | 73,934 |
| Loss (gain) on disposals of property and equipment | - | (618) | (2,060) | - | (2,678) |
| Material charges and other operating expenses | 11,696 | 10,319 | 8,856 | - | 30,871 |
| Total costs and expenses | 21,535 | 82,074 | 841,184 | (100,938) | 843,855 |
| INCOME (LOSS) FROM OPERATIONS | (21,535) | 39,036 | 177,049 | - | 194,550 |
| OTHER INCOME (EXPENSE): | | | | | |
| Interest expense, net of interest capitalized | - | (37,736) | (204) | - | (37,940) |
| Interest income | 46 | 267 | 210 | - | 523 |
| Loss on debt extinguishment | - | (21,603) | (620) | - | (22,223) |
| Other - net | 3 | (190) | 897 | - | 710 |
| Total other income (expense) - net | 49 | (59,262) | 283 | - | (58,930) |
| INCOME (LOSS) FROM CONTINUING OPERATIONS | | | | | |
| BEFORE INCOME TAXES | (21,486) | (20,226) | 177,332 | - | 135,620 |
| (Benefit) provision for income taxes | - | 8,173 | (5,315) | - | 2,858 |
| NET INCOME (LOSS) FROM CONTINUING OPERATIONS | (21,486) | (28,399) | 182,647 | - | 132,762 |
| DISCONTINUED OPERATIONS, NET OF TAX | - | (6,231) | - | - | (6,231) |

| | | | | | |
|---|-----------|-----------|------------|---------------|------------|
| EQUITY IN EARNINGS OF SUBSIDIARIES, NET OF TAX | 148,017 | 182,647 | - | (330,664) | - |
| NET INCOME | \$126,531 | \$148,017 | \$ 182,647 | \$ (330,664) | \$ 126,531 |

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Condensed Consolidating Income Statements
Nine months ended September 30, 2011
(in thousands)
(unaudited)

| | Rowan UK (Parent) | Rowan Delaware (Issuer) | Other non-guarantor subsidiaries | Consolidating adjustments | Consolidated |
|--|----------------------|-------------------------------|--|------------------------------|--------------|
| REVENUES | \$- | \$82,777 | \$ 624,584 | \$ (43,200) | \$ 664,161 |
| COSTS AND EXPENSES: | | | | | |
| Direct operating costs (excluding items below) | - | 61,133 | 327,625 | (43,200) | 345,558 |
| Depreciation and amortization | - | 44,022 | 85,245 | - | 129,267 |
| Selling, general and administrative | - | 17,019 | 48,153 | - | 65,172 |
| Loss (gain) on disposals of property and equipment | - | (139) | (1,269) | - | (1,408) |
| Material charges and other operating expenses | - | 6,120 | - | - | 6,120 |
| Total costs and expenses | - | 128,155 | 459,754 | (43,200) | 544,709 |
| INCOME (LOSS) FROM OPERATIONS | - | (45,378) | 164,830 | - | 119,452 |
| OTHER INCOME (EXPENSE): | | | | | |
| Interest expense, net of interest capitalized | - | (16,731) | (2,921) | 2,651 | (17,001) |
| Interest income | - | 2,879 | 110 | (2,651) | 338 |
| Other - net | - | 55 | (1,232) | - | (1,177) |
| Total other income (expense) - net | - | (13,797) | (4,043) | - | (17,840) |
| INCOME (LOSS) FROM CONTINUING OPERATIONS | | | | | |
| BEFORE INCOME TAXES | - | (59,175) | 160,787 | - | 101,612 |
| (Benefit) provision for income taxes | - | (15,189) | 14,179 | - | (1,010) |
| NET INCOME (LOSS) FROM CONTINUING OPERATIONS | - | (43,986) | 146,608 | - | 102,622 |
| DISCONTINUED OPERATIONS, NET OF TAX | | | | | |
| | - | 588,071 | 1,047 | - | 589,118 |
| | 691,740 | 147,655 | - | (839,395) | - |

EQUITY IN EARNINGS OF
SUBSIDIARIES, NET OF TAX

| | | | | | |
|------------|-----------|-----------|------------|---------------|------------|
| NET INCOME | \$691,740 | \$691,740 | \$ 147,655 | \$ (839,395) | \$ 691,740 |
|------------|-----------|-----------|------------|---------------|------------|

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
Statements of Comprehensive Income
Three months ended September 30, 2012
(in thousands)
(unaudited)

| | Rowan UK (Parent) | Rowan Delaware (Issuer) | Other non-guarantor subsidiaries | Consolidating adjustments | Consolidated |
|---|----------------------|-------------------------------|--|------------------------------|--------------|
| NET INCOME | \$27,579 | \$34,439 | \$ 48,851 | \$ (83,290) | \$ 27,579 |
| Other comprehensive income, net of tax: | | | | | |
| Pension and other postretirement benefit adjustments, net of income taxes | | | | | |
| Amortization of net loss | 4,131 | 4,131 | - | (4,131) | 4,131 |
| Amortization of transition obligation | 77 | 77 | - | (77) | 77 |
| Amortization of prior service credit | (782) | (782) | - | 782 | (782) |
| OTHER COMPREHENSIVE INCOME | 3,426 | 3,426 | - | (3,426) | 3,426 |
| COMPREHENSIVE INCOME | \$31,005 | \$37,865 | \$ 48,851 | \$ (86,716) | \$ 31,005 |

Rowan Companies plc and Subsidiaries
Statements of Comprehensive Income
Three months ended September 30, 2011
(in thousands)
(unaudited)

| | Rowan UK (Parent) | Rowan Delaware (Issuer) | Other non-guarantor subsidiaries | Consolidating adjustments | Consolidated |
|---|----------------------|-------------------------------|--|------------------------------|--------------|
| NET INCOME | \$193,809 | \$193,809 | \$ 44,459 | \$ (238,268) | \$ 193,809 |
| Other comprehensive income, net of tax: | | | | | |
| Pension and other postretirement benefit adjustments, net of income taxes | | | | | |
| Amortization of net loss | - | - | - | - | - |
| Amortization of transition obligation | - | - | - | - | - |

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| | | | | | |
|--------------------------------------|------------|------------|-----------|---------------|------------|
| Amortization of prior service credit | - | - | - | - | - |
| OTHER COMPREHENSIVE INCOME | - | - | - | - | - |
| COMPREHENSIVE INCOME | \$ 193,809 | \$ 193,809 | \$ 44,459 | \$ (238,268) | \$ 193,809 |

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ROWAN COMPANIES PLC AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Rowan Companies plc and Subsidiaries
 Statements of Comprehensive Income
 Nine months ended September 30, 2012
 (in thousands)
 (unaudited)

| | Rowan UK (Parent) | Rowan Delaware (Issuer) | Other non-guarantor subsidiaries | Consolidating adjustments | Consolidated |
|---|----------------------|-------------------------------|--|------------------------------|--------------|
| NET INCOME | \$126,531 | \$148,017 | \$ 182,647 | \$ (330,664) | \$ 126,531 |
| Other comprehensive income, net of tax: | | | | | |
| Pension and other postretirement benefit adjustments, net of income taxes | | | | | |
| Amortization of net loss | 12,305 | 12,305 | - | (12,305) | 12,305 |
| Amortization of transition obligation | 231 | 231 | - | (231) | 231 |
| Amortization of prior service credit | (2,333) | (2,333) | - | 2,333 | (2,333) |
| OTHER COMPREHENSIVE INCOME | 10,203 | 10,203 | - | (10,203) | 10,203 |
| COMPREHENSIVE INCOME | \$136,734 | \$ | | | |